

The International Business Challenge

The World in a Nutshell

If we could shrink the earth's population to a village of precisely 100 people, with existing human ratios remaining the same, it would look like this. There would be

- 57 Asians, 21 Europeans, 8 Africans;
- 14 from the Western Hemisphere (north and south);
- 52 would be female, 48 male;
- 70 would be non-white, 30 white;
- 70 would be non-Christian;
- 89 would be heterosexual, 11 homosexual;
- 59 percent of the entire world's wealth would be held by 6 people—all 6 would be U.S. citizens;
- 80 would live in substandard housing;
- 30 would be unable to read;
- 20 would suffer from malnutrition;
- 1 would be near death, 1 would be near birth;
- 1 would have a college education;
- 1 would own a computer.

Source: Donella L. Meadows, Dartmouth College.

The diversity of the world's population is stunningly apparent from these statistics. The task of international business courses is to enable students to appreciate global diversity and the extent of global change occurring in the world marketplace, and to prepare them to manage successfully in it. Commerce and the exchange of ideas is the

Nothing is so hard for those who abound in riches as to conceive how others can be in want.

*Jonathan Swift,
17th- and 18th-century English satirist*

essence of international business, and as global corporations compete to provide superior goods and services, they initiate change and development in national marketplaces.

Hence in this chapter you will learn about

- What international business is, and how it contributes to the well-being of countries, companies, and individuals.
- The international business challenge: political, economic, and cultural diversity and change in the international marketplace, and how executives respond to the challenge with knowledge and understanding derived not only from the business disciplines but also from political science, anthropology, economic development, sociology, religion, geography, and history.
- Historical perspectives on international business: early efforts to harness technologies and take products into foreign markets; the impact of diffusion catalysts such as mega languages, writing, printing technologies, transportation innovations, broadcast media, electronic media, and retailing institutions; and the emergence of modern corporations.
- The globalization movement: how international trade, trade blocs, foreign direct investment, movements toward global capitalism, technology, and global media have contributed to the dissemination of products, services, ideas, and lifestyles in world markets; how the developing world lags economically; and how the global diffusion process contributes to explanations about developmental differences among and within international markets.
- How the diffusion process affects strategy formulation and implementation; why firms pursue global and multimarket strategies in some markets and localize products, services, and supply chains in others; and why global–local strategies are often optimal.

INTRODUCTION

The term *international business* refers to commercial activities performed to promote the transfer of technologies, goods, services, resources, people, and ideas across national bound-

Commerce is the great civilizer. We exchange ideas when we exchange fabrics.

*Robert Ingersoll,
19th-century political leader and orator*

aries. International business occurs under many different formats, from the movement of goods from one country to another (exporting and trade); to contractual agreements giving firms in foreign nations legal permission to use products, services, and processes from other nations (franchising, licensing, subcontracting production); to companies setting up sales, manufacturing, research and development, and distribution facilities in foreign markets. The study of international business helps students understand how and why technologies, goods, services, and ideas cross national borders, and what factors affect their acceptance (or rejection) in foreign markets.

The flows of goods, services, technologies, resources, people, and ideas among markets have major effects on countries and their governments, companies, and individuals.

FIGURE 1.1 Chapter Outline



- At the nation-state level, participation in international business activities helps countries take advantage of national expertise in commerce to deliver goods and services into the international marketplace. It also increases the varieties of goods and services available in national markets and exposes consumers to new lifestyles and ideas. Over time, these exposures affect national cultures including their political and economic institutions, and impact a society's behaviors, attitudes, and lifestyles. Governments have major effects on international business activities in determining how open (or closed) national economies are to external influences such as trade and investment.

- For companies, international business increases competition in domestic markets and opens up new opportunities abroad. Global competition forces firms to be more innovative and efficient in their use of resources.
- For consumers, international business brings increased varieties of goods and services into the world marketplace and enhances living standards. Just as important, open borders means increased exposure to new ideas, technologies, and ways of doing things.

THE INTERNATIONAL BUSINESS CHALLENGE

As businesspeople survey the world marketplace today, they are both impressed and intimidated by the diversity and change they see in the 200+ national markets and 6 + billion people. Yet this is the marketplace they must understand in order to build products and services for worldwide customers in the face of increasing international competition. Successful international corporations are those that recognize the diversity of the world marketplace, and are able to cope with the uncertainties of doing business in continually changing market environments. Figure 1.2 summarizes the international business challenge.

The Diverse International Marketplace

The task of understanding the diversity of the world marketplace is immense. International executives must cope with the following:

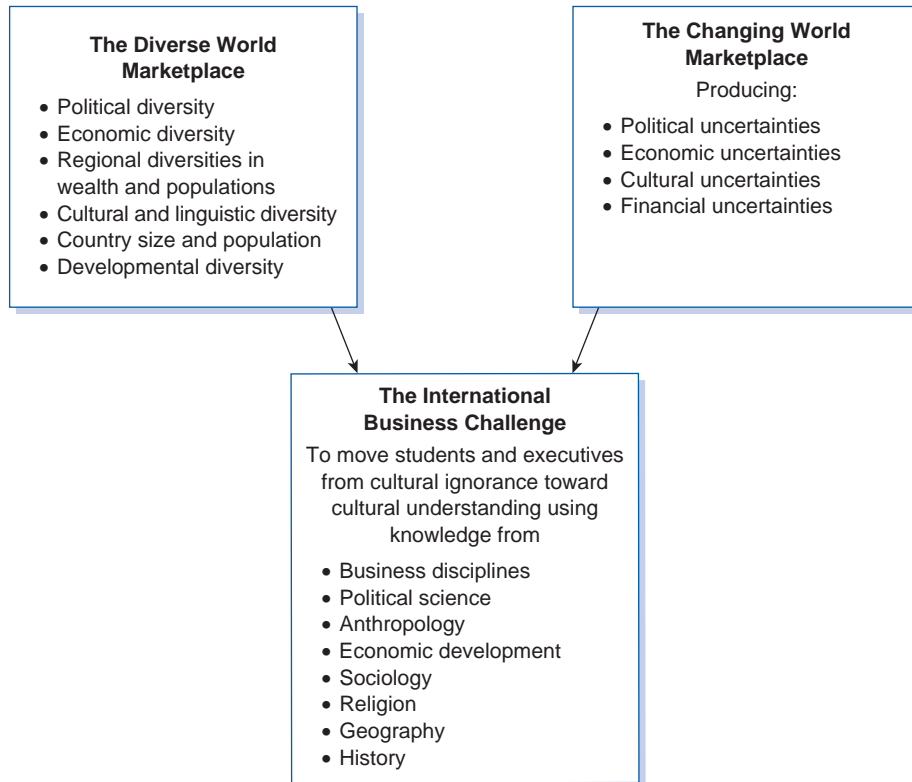
- Political diversity as world markets may be governed by autocracies (chiefs, kings, dictators, one-party governments) or democracies.
- Economic diversity as national wealth disparities vary from \$107 per capita per year in Burundi to over \$71,000 per capita in Norway.
- Regional diversity in distributions of wealth and population: North America has 5–6 percent of the world population but controls almost one-third of world gross domestic product (GDP); Asia has about 60 percent of the world population, but less than a quarter of the world GDP (12 percent without Japan).
- Cultural/linguistic diversity: The world's 200 nations are divided into about 10,000 linguistic/cultural groups,¹ a crude average of some 50 languages or ethnic groups per country. The Sudan has 600 ethnic groups and 400 different languages spread across its 31 million population. India has Hindi and English as its major languages, but supports many hundreds of dialects across its regions.
- Diversities in country size and populations: The number of countries in the world

Equality may perhaps be a right, but no power on earth can ever turn it into a fact.

*Honore de Balzac,
19th-century French novelist*

economy was about 60 at the start of the 20th century. This rose to 96 by 1960 and to over 200 as the millennium drew to a close. The population of these countries varies, from Mainland China and India with 1.3 and 1.1 billion inhabitants, respectively, to 43 nations with less than 1 million inhabitants each.²

FIGURE 1.2 The International Business Challenge



- Developmental diversities between industrialized nations (80 percent urban populations, 3 percent of GDP from agriculture) and industrializing nations such as those in sub-Saharan Africa and parts of Asia that are 30 percent urbanized and obtain over 30 percent of their GDPs from agriculture.³

The Changing International Marketplace

The world marketplace is characterized by constant change, resulting in major political, economic, cultural, and financial uncertainties.

Political change occurs as nations seek to establish stability and order within their national borders. In democratic nations, there are uncertainties as voters decide what political directions their countries should take. On average, there are national elections

Nothing endures but change.

*Heraclitus,
5th-century BC Greek philosopher*

somewhere in the world almost every week. Companies with major trade or investment commitments in those markets pay attention to national, regional, and local elections to determine how they will affect business—whether new governments are likely to support commercial developments, and how they are likely to impact national demands for products and services. In some developing countries, especially where democracies are not established, there are uncertainties as rival ethnic, religious, or social groups compete for political recognition (for example, in Somalia, Sudan, and Ethiopia). In democratic nations, account must be taken of splinter groups (e.g., environmental “Green” movements in Western Europe, fundamentalist Muslim groups in Iran, leftist guerillas in Colombia). Wherever there are major differences in political opinions, there is the potential for political unrest.

Economic change has become increasingly important with the growing interdependences among national economies. Economic downturns in North America or Western Europe reverberate throughout the world economy. Developing country problems (such as the U.S./UN–Iraq war in 1990–1991 and the Asian financial crisis over 1997–1999), caused

downturns in worldwide economic activity. Executives must be able to analyze global and regional economic trends and appreciate their impacts on corporate activities. At the nation-state level, managers must recognize symptoms of governmental mismanagement of the economy: unbalanced budgets (insufficient income from taxes to support government spending), corruption (e.g.,

There is nothing wrong with change, if it is in the right direction.

*Sir Winston Churchill,
British prime minister (1940–1945, 1951–1955)*

in government contracts and spending), unfair tax structures, balance-of-payment problems, and so forth. Two major economic problems are inflation (which causes erosions of savings, consumer purchasing power, and living standards) and high unemployment. Both can result in public discontent and political unrest.

Cultural changes create uncertainties through their effects on political and economic climates. Religious problems in particular have caused strife at national and international

levels. Within nations, religious conflicts can be highly disruptive (e.g., between Hindus and Muslims in the Kashmir in India; Christians and Muslims in Nigeria and Indonesia; and between fundamentalist and mainstream Muslim groups in Iran, Pakistan, Saudi Arabia, Egypt, Algeria, and Palestine). For many peoples of the world, religion is the most important part of their

We have just enough religion to make us hate, but not enough to make us love one another.

*Jonathan Swift,
17th- and 18th-century English satirist*

lives—more important than money and wealth, more important than country affiliations, more important than other worldly issues. This causes problems, as religion often supersedes national allegiances and makes religious conflicts among the most difficult to resolve.

Financial changes occur as international businesses conduct transactions in a world marketplace with over 180 currencies. When most international business transactions

occur, exchange rates (the price of one currency in terms of another) are involved. Firms must monitor two types of financial change: First, the values of many currencies fluctuate with respect to each other, affecting pricing and asset valuations as goods and resources cross national borders. Second, countries' abilities to make payments to foreigners are variable. Only a minority of national currencies (the dollar, yen, euro, and a few others) are fully acceptable ("convertible") in all world markets. Many developing country currencies, for example, are unacceptable to nonresidents as means of payment ("inconvertible"). As increasing numbers of developing countries enter the international marketplace, a key issue is how they can pay for needed goods and services. Many of these (e.g., Argentina) have built up major debts as they have fallen behind in their abilities to pay import bills. Others undergo significant economic turmoil as they strive to make their currencies acceptable (convertible) internationally. The 1997–1999 Asian financial crisis occurred when key nations in that region realigned their national currencies in efforts to make them convertible.

Coping with political, economic, and cultural diversity and change is what international business is all about. The task of international managers is to understand foreign markets and to craft strategies to facilitate international transactions and out-compete rivals in the world marketplace. This requires not only understanding the principles underlying sound business strategies, but also having in-depth knowledge of the world markets and their characteristics, behaviors, and trends.

RESPONDING TO THE INTERNATIONAL BUSINESS CHALLENGE: HOW EXECUTIVES COPE WITH GLOBAL DIVERSITY AND CHANGE

From Cultural Ignorance to Cultural Understanding

Implementing strategies across world markets requires in-depth understandings of national cultures and international trends. Anyone can read the local or international press and find out what is going on in a particular country, but while that knowledge is important, it is not sufficient for making important resource allocation or strategy decisions. International business managers must know not only *what* is going on but *why*. They must be able to interpret international events and assess their significance in wider national, regional, or worldwide contexts. It is impossible for managers to know everything about national cultures and international trends, but the relentless accumulation of worldwide market knowledge is the hallmark of all top international executives. They never stop learning. To be effective, however, managers must also have suitable frameworks to aid interpretations of market trends and events. The principal objective of international business courses is to provide these frameworks. The progression from cultural ignorance to understanding has four distinct stages:

1. Cultural ignorance exists when individuals have no knowledge of cultural differences. Businesspeople at this stage are liabilities to their companies and may do more harm than good on overseas assignments.
2. Cultural awareness takes place when people know there are cultural differences and are looking for them. Businesspeople at this stage are less likely to commit social or cultural blunders.

To know one's ignorance is the best part of knowledge.

*Lao Tzu,
6th-century BC Chinese philosopher*

If you wish to please people, you must begin by understanding them.

*Charles Reade,
19th-century English novelist and dramatist*

3. Cultural knowledge is an extension of cultural awareness. Businesspeople at this stage know how to offer appropriate greetings (i.e., the bow of Japan) and what behaviors to expect in foreign markets. They observe, catalog, and analyze foreign behaviors and look for the reasons behind them.
4. Cultural understanding occurs when businesspeople not only know *what* behaviors are appropriate, but also understand *why* those behaviors are correct for that culture. Individuals at this stage are often fluent in the local language and are aware of the behavioral and attitudinal subtleties of a culture.

Analytic Tools: The Multidisciplinary Nature of International Business

Understanding world markets requires knowledge from a broad range of social–scientific disciplines. Business studies draws heavily from the social sciences of economics, sociology, and psychology in its examinations of corporate, social, and individual behaviors. When the study of business goes beyond national borders, the conceptual foundations of international business extend to include the following areas of study.

Political science is the study of politicians, political institutions, and their effects on business and society. Democracies are present in many countries, but over 30 percent of people live under *autarchies*—hereditary monarchies, dictatorships, chiefs, shahs, and the like. In autarchies, the leader's word is often law, and usually, that person's control is absolute. In democracies, politicians control national destinies, but are

Democracy substitutes election by the incompetent many for appointment by the corrupt few.

*George Bernard Shaw,
19th- and 20th-century British playwright*

accountable to voters. International businesses must therefore routinely monitor political changes via elections, wars, and coups d'état. Politicians have major impacts on economic conditions—whether national markets grow or contract (major influences on corporate sales and profit levels). Governments also control corporate access to national markets via trade and investment policies. Just as important,

governments provide the legal frameworks that ultimately control business behaviors within their national borders.

Anthropology is the study of the evolution of mankind in its various environments. The evolution of human behaviors during economic development from traditional to modern societies entails major disruptions to political and economic institutions, as well as group and individual behaviors. A major key to understanding important emerging markets like India and China is appreciating how economic development changes affect business operations in rapidly industrializing markets.

Economic development occurs as nations industrialize and grow economically. As they progress toward higher living standards, significant changes occur in national institutions and behaviors. These changes, in political, economic, and cultural institutions, affect behaviors and values at all levels of society. Knowledge of these institutions and the development process helps businesspeople understand changes in foreign markets and provides insights as to how a country's past affects its present and future prospects. Understanding the economic and cultural development process requires insights from the anthropological, sociological, and economic development fields to illustrate the multifaceted nature of change as nation-states move from simple, self-sufficient societies to complex nation-states producing varieties of goods and services. Exhibit 1.1 details a multi-country study of the major cultural changes occurring during the modernization process. Note the importance of industrialization and the enduring effects of religion on national values and behaviors.

Sociology is the study of group behaviors in society. In tradition-based societies, extended family units are common, and familial obligations run deep in affecting business behaviors, the awarding of contracts, and employment opportunities. Another group behavior—the assigning of social class—determines societal hierarchies. In traditional societies, hereditary criteria (family pedigree) and seniority (equated with wisdom) are major sources of social status. But as countries urbanize, industrialize, and modernize, money and the accumulation of wealth become key indicators of social class standing. Finally, as countries industrialize, gender roles change, and male-oriented (patriarchal) societies come under pressure as female contributions to societal well-being outside of the home are recognized.

Religion is a primary determinant of behaviors and attitudes in all countries. In North America and Western Europe, Christian religions (including Protestantism and Roman Catholicism) provide behavioral and ethical guidelines to followers, but their effects on daily lives are not as pronounced as in other parts of the world. In the developing world, religion tends to have profound effects on daily lives. It is difficult to understand the Middle East without significant knowledge of the Islamic (Muslim) faith. Similarly, attitudes and behaviors in India are best understood when placed in their Hindu context. Both Islamic and Hindu religions have followings of over 1 billion people. Some religions are non-theistic (that is, they do not recognize or worship a god or gods) but are life-guiding philosophies

A man without religion or spiritual vision is like a captain who finds himself in the midst of an uncharted sea, without compass, rudder, and steering wheel. He never knows where he is, which way he is going, and where he is going to land.

William J. H. Boetcker,
20th-century U.S. religious leader and public speaker

EXHIBIT 1.1 A Sociological Perspective on Modernization, Cultural Change, and Traditional Values

The Study: 65 countries covering 75 percent of the world's population; executed in three waves: 1981–2; 1990–1; and 1995–8. Average of 1,400 respondents per country.

Key Findings**1. Three Country Clusters**

- *Pre-Industrial Societies:* Lifestyles influenced by geography (seasons, storm, droughts, floods, soils, rains). Male domination; authoritarian societies; family life important and parental authority; strong emphasis on religion; highly nationalistic; anti-free trade; social conformity
- *Industrial Societies:* Mankind dominates environment; more gender emancipation; less emphasis on parental authority and family cohesion; religiosity less evident; less nationalistic; pro-free trade; increased individualism.
- *Post-Industrial Societies:* More self expression; emphasis on communicating and processing information; increases in wealth and welfare states shifts emphasis to individual well-being and quality of life; environmental protection important.

2. Influence of Religion

- Cultural Heritage: 8 major cultural zones; Western Christianity; Orthodox; Islam; Confucian; Japanese; Hindu; African; Latin American.
- Religious traditions appear to have enduring impacts on societal value systems.
- Religiously mixed societies heavily influenced by national cultures (Germany: Protestantism and Catholicism; India: Hindu and Muslims; Nigeria: Christian and Muslim).
- Protestant societies scored highest on interpersonal trust, tolerance, and well-being.
- Strongly religious societies tended to be: nationalistic; respectful of authority; low tolerances for abortion, homosexuality, and divorce.
- In most advanced societies (16/20), there were decreases in church attendance BUT increases in spiritual concerns (where did we come from? where are we going? why are we here?). Religion in the USA is as important as in many industrializing societies.

3. Some General Conclusions

- Societal value systems are significantly influenced by economic development.
- Evidence suggests that as societies develop economically, their cultures tend to shift in predictable directions, regardless of cultural heritage.
- Predictable changes include: occupational specialization; increasing levels of affluence and income; changes in gender roles, attitudes towards authority and sexual norms; broader political participation ("less easily led publics").

Source: Adapted from Ronald Inglehart and Wayne E. Baker "Modernization, Cultural Change and the Persistence of Traditional Values" *American Sociological Review* 65, 1 (February 2000): 19–51.

affecting behaviors. Confucianism and Daoism have affected Chinese behaviors for centuries. Buddhism, another nontheistic religion, affects daily behaviors in many Asian nations (e.g., Korea, Thailand, Laos, Cambodia, China, Japan). Thus, understanding world markets requires in-depth appreciations of the world's major religions and their effects.

Geography is a known quantity to national companies competing in their native markets. It warrants little analysis or commentary. In advanced national markets, technology (e.g., bridges, tunnels, irrigation systems) overcomes many geographic obstacles, and products and services are easily adjusted to prevailing climatic conditions. But as businesspeople evaluate new international markets, geography, climate, and topography (the study of terrains and land surfaces) become major elements in market analysis. Geographic resource availability (minerals, agriculture) is a key shaper of national development. Topography and climate influence target markets (where populations reside); distribution (how to reach and service customers); and, in a more general sense, attitudes toward life (e.g., in severe climates or harsh terrains, where "Mother Nature" determines life's outcomes).

History's contribution to world business is often underestimated by businesspeople whose major orientations are to the present and the future. Yet it is difficult to understand country markets without appreciating how national histories have shaped current political, economic, and cultural circumstances. Historical analysis, with its emphasis on how the past influences the present, is a key tool in interpreting and anticipating market behaviors and trends.

When I want to understand what is happening today, I decide what will happen tomorrow; I look back. . . . [A] page of history is worth a volume of logic.

*Oliver Wendell Holmes Jr.,
20th-century U.S. Supreme Court jurist*

GLOBALIZATION: HISTORICAL BACKGROUND

Definition and Components

The globalization movement is the trend toward increasing interdependencies among world markets, and the diffusion of new ideas, technologies, resources, products, services, and lifestyles through international markets. Globalization comprises two components: *Modernization* involves the upgrading of technologies and living standards that occur as ideas, products, and services diffuse through world markets. The second component, *acculturation*, involves the transfer of lifestyles and behaviors among societies. Currently, Westernization is the dominant form of acculturation. This occurs when non-Western societies emulate the lifestyles, values, and behaviors of North America and Western Europe. From a nation-state perspective, most countries desire modernization, but not all have been keen to adopt the materialistic trappings and competitive behaviors associated with Westernization (see Short Case 1.1 for a discussion of this in the Middle Eastern context). From a company perspective, many firms seek to take advantage of globalization trends to standardize output as they extend their wares into the world marketplace. Exhibit 1.2 highlights key characteristics and controversies associated with globalization, modernization, and Westernization. While globalization has been occurring since international business

EXHIBIT 1.2 Modernization, Westernization, and Americanization

Transfers of technology and foreign intrusions into national cultures have been occurring for hundreds of years. Starting with the European colonization movement of the 16th century, and proceeding through the industrial revolutions of the 18th and 19th centuries, the spread of technology has jumpstarted modernization movements in many countries as scientific and technological advances have upgraded national lifestyles and aided efficient resource use.

In contrast, Westernization can be defined as the inculcation of (mainly) U.S. and European values on national cultures. As major international traders throughout the 20th century, U.S. and European influences on other nations' lifestyles has been extensive, and as U.S. power has increased, so

"Americanization" has become synonymous with Westernization. Hollywood movies dominate the world market with 70 percent market share in the European Union and over 50 percent of the Japanese market. U.S. franchises and brands proliferate the global landscape ("McDonald's" and the "Coca-Cola culture"). British music, French cuisine, and Italian fashions have established reputations worldwide; and in many developing countries, European language use is a lasting legacy from their colonial pasts.

Americanization in particular has been resisted in many parts of the world. Both Canada and the EU have turned to cultural protectionism to shield their cultures from Americanization. In 1998, 19 European, African, and Latin American countries (not the U.S.) met to discuss some international rules to protect national cultures from perceived American global cultural imperialism. In developing markets in particular, local knowledge, cultures and systems have lost ground to the "global monoculture." Westernization and Americanization challenge national cultures as they:

- Undermine religious values, the cornerstones of many traditional societies, with materialistic orientations. The U.S. is known as the 'great satan' in many Islamic nations.
- Encourage individualism at the expense of family, community, and national allegiances.
- Challenge social class structures based on hereditary privilege (family "name," "pedigree," aristocracies) and substitute competitive social class systems based on income and wealth ("yuppies," "nouveau riche").

But Westernization and Americanization are not the only shows in town. Other national cultures have impacted the West. For example, Asian cuisines (Indian, Chinese, Japanese, Thai, Korean) have been well received in Western Europe and North America. Japanese management practices have had significant influences on European and U.S. businesses; and Islamic, Hindu, Buddhist and other religions have increasing followings in the West. As commerce lubricates cross border flows of products, lifestyles, and philosophies, global citizens have more alternatives from which to choose their ideal cultural mix. Perhaps sadly, these changes are occurring at the expense of national cultures.

Sources: Anonymous, "Culture Wars," *Economist*, September 12, 1998: 97–99; Craig Turner, "Countries discuss their concerns about US effects on global culture," *Denver Post*, July 8, 1998: A16; and John Stackhouse, "Artisans drowning in global monoculture," *The Globe and Mail*, Thomson: Canada, October 31, 1998: C16.

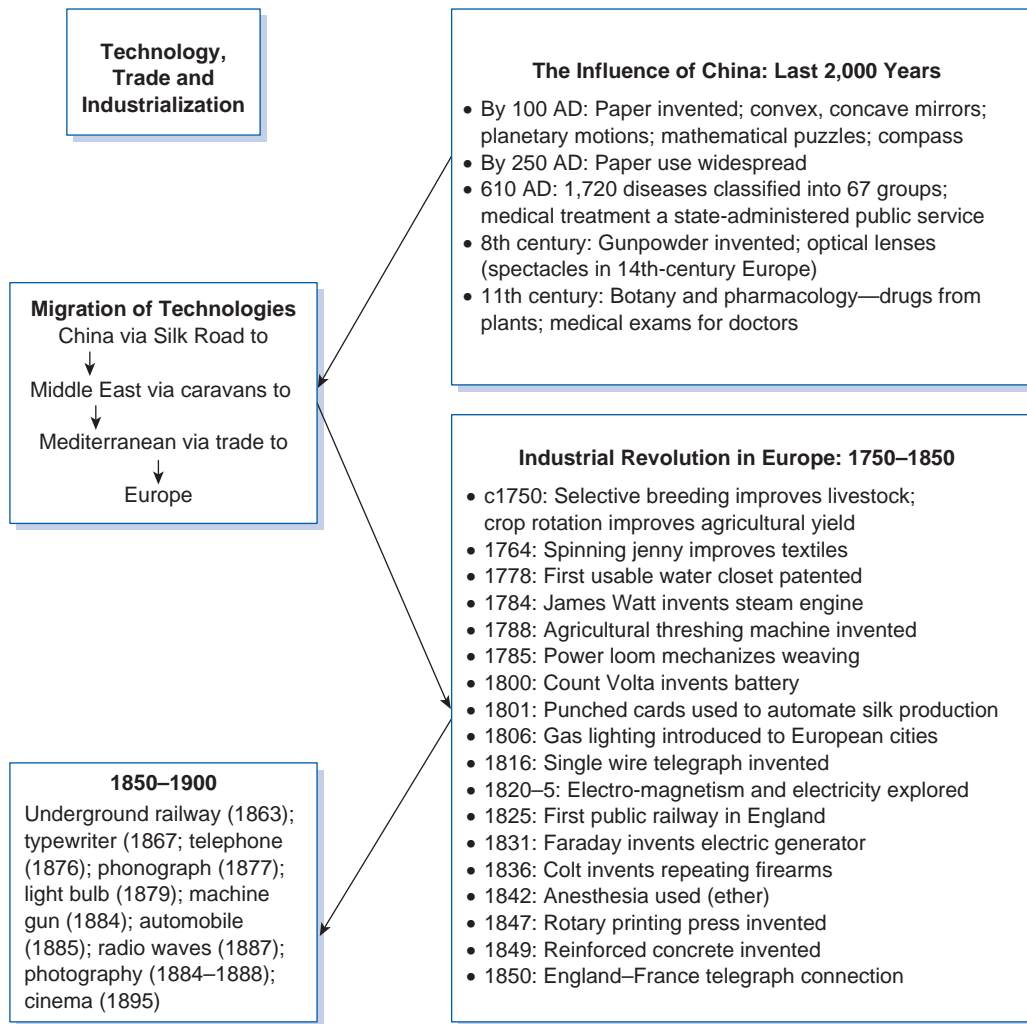
Look back along the endless corridors of time and you will see that four things have built civilization: the spirit of religion, the spirit of creative art, the spirit of research, and the spirit of business enterprise.

Neil Carothers, U.S. writer

began, thousands of years ago, its effects have become more pronounced with the technological developments of the 20th century, most notably after 1945 and again after the 1980s.

The evolution of international business and globalization has occurred through three discernible eras: the Exploration Era to 1500; the Colonial Era spanning 1500–1900; and the Era of the International Corporation, from 1900 to the present. Throughout history, innovation and technology have been decisive influences in extending commerce across national boundaries and diffusing new ideas through world markets. Figure 1.3 shows early technologies that diffused westward from China and Asia.

FIGURE 1.3 Early Technologies



The Exploration Era to 1500

The history of business dates back to prehistoric times. Villages formed to allow early divisions of labor to provide goods and services for communities. As expertise accumulated in the production of goods, infrastructures (mainly roads) were built to link communities, and local markets evolved into regional markets, attracting increased varieties of merchants and manufacturers. As regional markets took shape, road and transportation systems developed to link major commercial centers, and national markets for products emerged. The ancient civilizations of Latin America (the Incas, Mayas, and Aztecs), Egypt (the Pharaohs, pyramids), Western Europe (the Greeks and the Romans), and Asia (India and China) illustrate humankind's early efforts to innovate and use technology to upgrade standards of living. But in those days, advances in technologies and living standards were slow to move beyond national frontiers. As commerce extended throughout countries, merchants began to look to foreign markets for trading opportunities, and so the seeds of international business were sewn. In its early years, international commerce was limited to the reliability of seafaring ships, and land routes were popular. From the 6th century BC, the Silk Road, running from the Middle East to China, was a major commercial conduit carrying artifacts, metals, and semiprecious stones across Asia, as well as new ideas such as Buddhism and Islam. Later, the Romans demonstrated the importance of supply routes as they managed an empire stretching from Britain across Europe to reach the Middle East and North Africa. Trade routes were established and roads built to equip its armies; a common currency (the Dinarius) was used to lubricate commercial dealings.

Major steps forward occurred in the 12th and 13th centuries as compasses for navigational use, advances in sails and rigging, and hinged rudders revolutionized ocean travel. Italian explorer Marco Polo reached China by the late 13th century. Vasco de Gama, a Portuguese navigator, circumnavigated the South African Cape of Good Hope to reach India in 1498, and Columbus officially was the first European to discover the Americas in 1492. To replenish ships and to provide bases for further exploration, trading outposts were built. As the commercial potential of the Americas and Asia unfolded, regular trading routes were established. To finance transcontinental trade, new corporate forms emerged in Italy and later in Europe such as joint stock companies. Intercontinental trade prospered until nationalistic concerns took over, and European countries saw merit in taking political control of the new foreign markets.⁴

Modern-day effects. While the rudiments of an international trading system were taking shape, other, long-lasting cultural transplants were occurring as religious spheres of influence were established. The Romans adopted Christianity in the 4th century and spread it throughout their European empire. Islam diffused throughout the Middle East and North Africa and along the Silk Road to Asia. Buddhism moved eastward from India to East Asia, and Confucianism and Taoism moved westward from China to East Asia, also through trade and via the Silk Road. These early movements established the major spheres of religious influence that we have today.

1500–1900: The Colonial Era

The Colonial Era saw military conquests, colonization, and the advent of regular international trade taking technologies to other nations, as the major European powers competed to establish empires in the Americas, Africa, and Asia. Foreign influences were magnified through *diffusion catalysts*: ideas, philosophies, and technical innovations that increased the speed, efficiency, and effectiveness of the movements of ideas and goods between and within nations. These diffusion catalysts included the following:⁵

The development of mega languages. For ideas and technologies to travel, there had to be common means of communication between markets. In early times, these were Greek, Latin, and Mandarin Chinese. In later years, use of English and European languages facilitated the transfer of ideas and technologies among countries.

Gutenberg made everyone a reader. Xerox made everyone a publisher.

*Marshall McLuhan,
20th-century Canadian educator,
philosopher, and communications theorist*

Advances in arms and military capabilities. The advent of cannons and firearms gave colonizing powers significant advantages over local populations, enabling them to subdue and maintain control of colonies with limited manpower and resources.

Writing and printing technologies extended the spread of knowledge beyond personal experiences and oral transmissions. “Potted” knowledge, in the form of books, brought about a broadening of individual knowledge bases. Formal education systems, emphasizing literacy and technical skills, led to a wider dissemination of skills via schools, guilds, and universities. Knowledge became increasingly mobile and transferable.

Transportation innovations. The steam engine revolutionized industry and travel with its applications to factories (1781), ships (1783), rail (1803–1829), and buses (1824). The steam engine brought international markets closer together and provided access to remote corners of large national markets. As the colonizing powers took these innovations to foreign markets, the transportation of goods over wider areas created regional and national markets for merchandise.

The industrial age had to wait centuries until people in Scotland watched their kettles boil and so invented the steam engine.

*Alfred North Whitehead,
19- and 20th-century English philosopher*

The Industrial Revolution in England between 1750 and 1830 brought about *vast changes in productive capabilities*. Cast iron and steel had been used in India and China between 500 and 300 BC and in Scandinavia about 800 AD, but its use for industrial equipment dates

from Abraham Darby's coke-based smelting processes in England during the Industrial Revolution. Similarly, knitting machines capable of 1,000 stitches per minute revolutionized the textile industry; as did Jethro Tull's mechanical seed drill for agriculture. Finally, Michael Faraday's electric generator laid the foundations for the widespread use of electricity as an industrial energy source.

Advances in communications complemented transportation innovations. The 19th century saw the advent of the electronic telegraph and the telephone. Both facilitated information flows between and within national markets, and aided market supply and demand mechanisms. These factors, along with national print media, gave the world a connectivity it had never before experienced.

Retail establishments were important diffusion catalysts, as they gave the general public access to new products, services, and ideas, and facilitated the acceptance of new lifestyles and philosophies. These diffusion catalysts facilitated the expansion of international business over the centuries, but are also relevant today as developing nations confront communication, literacy, and infrastructure problems associated with industrialization.

Table 1.1 sets out some of the major technological innovations that influenced the development of world business. Note that many early innovations came out of Asia (and China, in particular). It was left to the Europeans to "reinvent" many innovations and diffuse them regionally and into world markets through their colonization efforts of the 15th to 20th centuries.

Modern-day effects. From the colonization period came two significant byproducts that still influence today's commercial activities. First was the spread of European languages to their colonies: English to over 70 countries, French to over 25 nations, and Spanish to another 15–20 countries. These languages still lubricate business today as commercial and secondary forms of communication. Second, global consumption patterns were enhanced through colonial products including maize, potatoes, vegetables, tea, and coffee, as well as new dyes, flavorings, and transfers of horses (notably to the Americas) and cattle types to new markets.

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The Global Web

For an excellent look at 20th-century economic history, see *Commanding Heights: The Battle for the World Economy*, at www.pbs.org/wgbh/commandingheights.

The site covers

- key events of the 20th century with some short online videos;
 - economic development histories of 41 nations;
 - descriptions of 150 people who shaped 20th-century history, some with video footage;
 - video essays including (1) Battle of Ideas: Markets vs. Governments, (2) First Era of Globalization, and (3) Bretton Woods Conference (click on Ideas to access videos).
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1900–Today: The Era of the International Corporation

By the end of the 19th century, much of the world had been explored and colonized. While foreign influences had introduced new technologies and lifestyles into the developing world, there had been some notable early backlashes, especially in the Americas with U.S. independence in 1776 and Latin America's between 1810 and 1824. As the 20th century unfolded, independence movements gained momentum in Africa, the Middle East, and Asia.

TABLE 1.1 Perspective on Technological Developments**Diffusion Catalyst Technologies****A. Transportation**

- 5000 BC: Sailing ships appear in Middle East/Mediterranean
- 1050 BC: Primitive compass developed in China
- 1125 AD: Compass developed for navigational use in China
- 1200: Hinged ship rudders appear
- 1500: Galleon ship developed by Spanish for ocean travel
- 1769: James Watt patents the steam engine. Applications to factories (1781); ships (1783); rail (1803–29); buses (1824)
- 1815: McAdam uses crushed rock for permanent road surfacing and building
- 1852: First flight of a dirigible
- 1859: Drilling of first commercial oil well in Pennsylvania
- 1870s–80s: Continuous ignition combustion engine invented
- 1903: Wright brothers fly first heavier-than-air craft in North Carolina
- 1880s–1890s: Automobiles with internal combustion engines by Carl Benz and Gottlieb Daimler in Germany
- 1930: Frank Whittle invents jet engine; first jet aircraft flies in Germany 1939
- 1936: British Broadcasting Corporation begins television broadcasting
- 1957: Soviets launch first satellite into space; 1962 U.S. satellite Telstar is the first commercial communications satellite
- 1960s: Internet technologies developed in U.S.; commercialized 1990s

B. Printing/Writing

- 150 BC: First paper made by Chinese
- 600 AD: Chinese develop woodblock printing
- 740 AD: First printed newspaper in China
- 1050: Chinese print using movable type
- 1423: Wood block print used in Europe
- 1438 Gutenberg invents offset printing press; rotary press 1796 in Germany; unotype in U.S. 1880s

C. Key Industrial Technologies

- 500 BC: Steel smelted in India
- 300 BC: Cast iron invented in China
- 790 AD: Scandinavians use blast furnaces to make cast iron
- c1590: Simple knitting machine developed in England (1000 stitches/minute)
- 1701: Englishman Jethro Tull develops first mechanical seed drill
- c1750: Iron smelting with coke developed in England
- 1831: Michael Faraday builds first electric generator
- 1908: Henry Ford introduces the Model T; mass production assembly line 1913
- 1930: First large scale analog computer is built
- 1959: IBM introduces 2nd generation computer using transistors
- 1968: Control Data and NCR use integrated circuits in 3rd generation computers

(Continued)

TABLE 1.1 (Continued)

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- D. Time Awareness
- 800 BC: Egyptians develop sun dials with 6 time divisions
 - 500 BC: Greeks and Chinese use sundials
 - 725 AD: Earliest known mechanical clock
 - 1335: Italians build first European mechanical clock
 - 1656: Huygens builds accurate pendulum clock (Dutch)
- E. Communications
- 1831: Electric telegraph built by Wheatstone and Fothergill
 - 1844: Samuel Morse introduces first practical telegraph service
 - 1876: Alexander Graham Bell patents the telephone
 - 1895: First commercial movie projector developed in France
 - 1897: Marconi achieves radio transmissions over long distances
 - 1900: Wall-mounted telephone introduced with separate mouth piece and earpieces
 - Radiotelephony: Trans-Atlantic voice communication U.S. to France 1915; 1926 first trans-Atlantic conversation
 - 1923: Iconoscope, first electronic television camera tube is patented
 - 1926: The Jazz Singer is the first talking motion picture
 - 1985: Optical fiber technologies used; 300,000 telephone calls over one line
-

1900–1945: Company internationalization. But the next globalization wave was waiting in the wings, and companies began to replace countries as the major catalysts of economic and cultural change. A Belgian company established the first foreign subsidiary in Prussia (today's Germany) in 1837, and commensurate with their overseas interests, most European investments up to 1945 were colonies-based.⁶ As a result of their industrialization and colonization efforts then, Western Europe was the center of international business at the turn of the last century. In recognition of this trend, Japanese trading companies such as Mitsui and the Yokohama Specie Bank had set up offices in Western Europe in the 1880s, along with numerous Japanese shipping and insurance companies.⁷ U.S. companies such as NCR and IBM also established European presences in the thriving regional market. European companies such as Unilever, British Petroleum, Royal Dutch/Shell Group, Siemens, BASF, Bayer, Hoechst, and Nestlé all had foreign manufacturing plants by 1890.⁸ However, the First World War of 1914–1918, the Great Depression of the 1920s and 1930s, and the Second World War all contributed to a curtailment of international activities until after 1945.

Nevertheless, this was an era of technological change. In the transportation sector, increasing use of aircraft for personal and industrial uses meant additional options for companies serving foreign markets, and the automobile transformed personal and industrial transportation. Television also made its debut, in 1936. These advances set the scene for rapid international growth in the post-1945 era.

Radio has no future. Heavier-than-air flying machines are impossible. X rays will prove to be a hoax. I have not the smallest molecule of faith in aerial navigation other than ballooning.

*Lord Kelvin, 19th-century
Irish mathematical physicist and engineer*

1945–1980: Era of increasing international competition. It was not until the 1950s that corporations began to reassert themselves in international markets. The United States, whose economy had suffered least in World War II, was the first to reinstate foreign investments, and during the 1950s and 1960s U.S. firms established secure footholds in Canada and in the re-emerging Western European economy. The 1960s and 1970s saw the revitalization and expansion of Japanese and European firms in the international marketplace as market blocs such as the European Economic Community (today's European Union) and free trade movements increased the number of opportunities in the worldwide marketplace. During this period, the Cold War political rivalry between the United States and the USSR dampened commercial prospects.

THE GLOBALIZATION ERA SINCE 1980

During the 1980s, the world marketplace changed yet again. The collapse of communism and the industrialization of developing markets led to significant increases in global commerce. The internationalization of North American, Western European, and Japanese firms had contributed to an upsurge of commercial activities in the developing world, and by the 1990s, developing market competitors were entering world markets, including Petróleos de Venezuela; Daewoo, Samsung, Hyundai, and LG Group (Korea); Cemex and Gruma (Mexico); and Petróleo Brasileiro, Vale do Rio Doce, and Cervejaria Brahma (Brazil). As the new millennium got underway, companies from the developing and transition economies (China, Argentina, Philippines, South Africa, Malaysia, Singapore, and India, among others) were internationalizing and heightening competition in the world marketplace. Cumulatively, they invested \$193 billion abroad in 2006—16 percent of world investment flows.

The men who run modern international corporations . . . now have more power than most sovereign governments to determine where people will live; what work they will do, if any; what they will eat, drink, and wear; what sorts of knowledge, schools, and universities they will encourage; and what kind of society their children will inherit.

*Richard J. Barnett and Ronald E. Muller, authors of
Global Reach: The Power of the Multinational
Corporations (1974)*

- In 2005, international corporations were on their way to becoming true global commercial empires. Some 78,000 international companies had about 780,000 foreign subsidiaries in world markets. These subsidiaries employed over 62 million people, and their sales totaled over \$19 trillion—almost half the world's \$40+ trillion GDP. Of these, about 86 percent were from North America, Western Europe, and Japan.⁹ Table 1.2 shows the world's top 25 international corporations by sales. U.S. companies accounted for over 20 percent of foreign direct investment in world markets. In terms of sales, they had 10 of the top 25 international corporations (with one German–U.S. firm—Daimler-Chrysler) but 5 out of the top 10 companies.
- Western European firms, long established in colonial markets and in the European Union, had over \$7.1 trillion of foreign direct investments in world markets in 2006

(over 57 percent of the world total). Heading the list were Royal Dutch Shell, third in the world, with British Petroleum (BP), Daimler-Chrysler, Total, Volkswagen, Siemens, Carrefour, ENI, and E.ON rounding out the European presence in the top 25 list. Most have major dependencies on world markets with about 50 percent of world sales outside of their home markets. Note, though, that sales dependencies on foreign markets are but one indicator of corporate globalization measures. Others, such as percentages of foreign-based assets and foreign employees, are examined in our Chapter 8 discussion of globalization measures.

- Japanese firms occupied five spots in the top 25 list. Perhaps surprisingly, Japan had “only” \$449 billion of direct investments in world markets. Their major presences in foreign markets are in automobiles (Toyota, Honda, and Nissan) and electronics (Hitachi).
- From an industry perspective, the two dominant categories are petroleum (with seven entries), automobiles (also with seven listings), and electronics (five entries including the diversified GE). Of the remainder, retail companies are the most prominent (with Wal-Mart and Carrefour).

The Major Catalysts of Post-1980 Globalization

International trade. The world has moved irrevocably toward free trade since 1945 through the efforts of the General Agreement on Tariffs and Trade (GATT, a United Nations agency) until 1995, and since that time, through GATT’s replacement, the World Trade Organization (WTO). The results have been dramatic. Since 1945, tariffs have fallen from an average of over 40 percent for industrial goods to less than 4 percent. World trade expanded from \$2 trillion in 1980 to about \$10 trillion in 2005. The expansion of world trade has been aided by the UN’s International Monetary Fund (IMF), which monitors foreign exchange rate values among nations and provides aid to countries with international debt problems. Increasingly efficient air and ocean transportation systems have also aided international trade expansion.

Trade blocs. For some countries, the worldwide liberalization of trade and commerce did not occur fast enough, and countries got together to form trade blocs to facilitate commercial interactions among members. The European Economic Community (now the European Union) was formed in 1957. Since then, trade blocs have been formed in North America (North American Free Trade Area), South America (the Mercosur and Andean Pact groups), and also in Asia and Africa.

Foreign direct investments (FDI) occur when international companies make investments in factories, plants, and machinery in nondomestic markets. As firms have increased their international commitments, FDI has grown from \$615 billion in 1980 to over \$12 trillion in 2006. Nation-states, recognizing the economic stimulus FDI provides, have increasingly worked to make their economies more attractive to international corporate investors. Throughout history, there have been three major reasons for international business expansion. In early times (16th through 20th centuries), explorers looked for new *resources* (often

TABLE 1.2 World's 25 Largest Corporations: Ranked by Sales, 2005

<i>Company</i>	<i>Country</i>	<i>Industry</i>	<i>Total Sales</i>	<i>Foreign Foreign</i>	<i>Total Sales</i>
1. ExxonMobil	US	Petroleum	358.9	248.4	69.2%
2. Wal-Mart	US	Retailing	312.4	62.7	20.1%
3. Royal Dutch Shell	UK/Neths.	Petroleum	306.7	184.0	60.0%
4. British Petroleum	UK	Petroleum	253.6	200.3	79.1%
5. Chevron Group	US	Petroleum	193.6	99.9	51.6%
6. General Motors	US	Motor Vehicles	192.6	65.3	33.9%
7. Daimler-Chrysler	Gmy/US	Motor Vehicles	186.5	76.9	40.6%
8. Toyota	Japan	Motor Vehicles	186.2	117.7	63.2%
9. Conoco-Phillips	US	Petroleum	179.4	48.6	27.1%
10. Total	France	Petroleum	178.3	132.9	74.5%
11. Ford Motor	US	Motor Vehicles	177.1	80.3	45.3%
12. Mitsubishi Corp.	Japan	Wholesale/Trade	168.7	29.6	17.5%
13. General Electric	US	Electrical	149.7	59.8	39.9%
14. Volkswagen	Germany	Motor Vehicles	118.6	85.9	72.4%
15. Altria Group	US	Tobacco	97.8	54.9	56.1%
16. Siemens	Germany	Electrical	96.0	64.4	67.1%
17. Carrefour	France	Retail	92.8	48.5	52.3%
18. ENI	Italy	Petroleum	91.8	50.9	55.4%
19. IBM	US	Electrical	91.1	56.2	61.7%
20. Honda	Japan	Motor Vehicles	87.7	69.8	79.6%
21. Hewlett-Packard	US	Electronics	86.7	56.1	64.7%
22. Hitachi	Japan	Electrical	83.8	24.1	28.7%
23. Nissan	Japan	Motor Vehicles	83.4	59.8	71.7%
24. E.ON	Germany	Utilities	83.2	29.1	35.0%
25. Samsung	Korea	Electrical	79.0	62.1	78.6%

Source: Adapted from "The World's Top 100 Transnational Corporations," *World Investment Report 2007*, New York: United Nations: 229–231.

gold, silver, or mineral deposits). Then, as countries began to develop, businesspeople began to regard distant nations as *markets* (the Colonial Era). Finally, as free trade movements took hold after 1945, *efficiency-seeking* companies looked to overseas markets as manufacturing sites to lower global costs of doing business. Today, all three major motives (resource-seekers, market-seekers, efficiency-seekers) are reasons why firms invest abroad.¹⁰

The selfish spirit of commerce knows no country, and feels no passion or principles but that of gain.

Thomas Jefferson, U.S. president (1801–1809)

marketplace. Within national markets, former government-owned industrial monopolies such as airlines, telecommunications, energy, and utilities have been sold back into the private sector (privatization), and their markets deregulated to allow companies to compete for market share and profits.

Global communications are one of the most important contemporary manifestations of Western power. . . . [T]he extent to which global communications are dominated by the West is . . . a major source of resentment and hostility of non-Western peoples against the West.

*Samuel P. Huntington, political scientist,
Harvard University*

Global movements toward capitalism. The demise of communism in the 1980s and 1990s left little competition for capitalism to be the world's dominant economic and political philosophy. Since that time, Latin America, Eastern Europe, and Asia have slowly opened up their markets and become active participants in the global

Technology and global media. The advent of satellite, computer, and Internet technologies has transformed worldwide communications and facilitated information flows among nations, companies, and individuals. At the nation-state level, it has become increasingly difficult for countries to isolate their citizens from outside influences, and consumers worldwide have begun to enjoy the benefits of the international marketplace. Companies now have superior abilities to coordinate activities, products, and strategies across markets, and individuals have increased access to new ideas, philosophies, products, and lifestyles. Note, though, that many traditional barriers

to international business—literacy, language problems—still affect the spread of international electronic commerce (or e-commerce; see Short Case 1.2 at end of chapter).

Globalization and the Developing World

Up to 1985, the Triad nations of North America, Western Europe, and Japan were dominant in world commerce, and are still today the major providers of global capital. But as developing markets opened up to trade and investments, new ideas and technologies began to contribute to economic and cultural change. Trade and investments brought many new (and affordable) products to developing nations. The advent of global media made information more readily available to developing nation publics that, coupled with moves toward democratization, have made politicians more accountable to their electors.¹¹

But the diffusion of technologies and consequent modernization processes have barely affected many emerging markets, where large percentages of national populations still reside in agriculturally based rural areas, largely untouched by modernization trends. As the United Nations noted,¹²

- About 1 billion people live on less than \$1 a day. This number of people has slowly decreased over the past 15 years, but in some areas (notably sub-Saharan Africa) the number in extreme poverty has increased. About 2½ billion live on less than \$2 a day. Over 800 million people were affected by chronic hunger in 2003.
- In 2004, half the world's population lacked basic sanitation and safe drinking water. At the other end of the development spectrum, 50 percent of developed-nation populations were using the Internet compared to 7 percent in developing nations and less than 1 percent in the 50 least-developed nations.
- The average income of the 20 richest countries was 15 times that of the 20 poorest countries in 1960. It is now 30 times the average of the 20 poorest countries.¹⁵
- The world population reached 6 billion in 2000 and is set to reach over 7 billion by 2015. Over 95 percent of the increase will occur in the developing world.
- United Nations 2004 listings had 26 out of 207 nations with GDP per capita of over \$30,000 per year. At the other end of the spectrum were 133 countries with GDPs of less than \$5,000 per capita.

Lack of money is the root of all evil.

*George Bernard Shaw,
19th- and 20th-century British playwright*

These statistics make clear why current strategic emphases of international corporations have shifted to the developing world where market potential remains largely unfulfilled. In realizing this potential, though, executives must understand *why* economic progress has been historically slow.

There are two kinds of fools. One says: "This is old, therefore it is good." The other says: "This is new, therefore it is better."

William R. Inge, English author

Development has proceeded unevenly in the developing world for two reasons. First, some countries (such as Chile, Brazil, Malaysia, and South Korea) have made greater efforts to open their economies up to international trade and foreign influences, and have benefited from technology transfers to create new jobs and opportunities, while other countries have remained isolated and made less economic progress. Second, the diffusion process within many countries has been hindered by geographic, political, and cultural factors that have slowed the impact of modernization processes. The slow diffusion of new ideas and technologies has limited opportunities to evaluate alternative lifestyles and philosophies prevalent in the world economy.

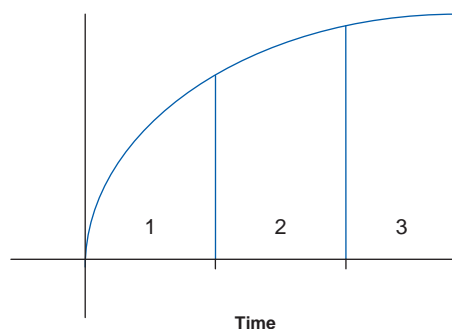
Reasons for Developmental Differences: The Diffusion Process in International Business

Developmental differences among and within nations demonstrate that technologies and ideas diffuse at variable rates throughout world markets. Not surprisingly, this affects the extent to which companies can leverage technologies, products, and services across markets. The diffusion of innovations occurs at two levels: between markets and within markets. Figures 1.4 and 1.5 illustrate these processes.

The international diffusion process. In Figure 1.4, the diffusion process begins in advanced markets like the United States, Japan, and Western Europe. While innovations today can occur anywhere in the world, commercialization tends to occur first in these regions because of their affluence. Also, the competitiveness of these markets, and their high levels of education and affluence, have constantly stimulated the development of new products and technologies.¹⁴ As corporations see commercial opportunities in foreign markets, new products and technologies are transferred into other industrialized countries through export sales and overseas manufacturing in foreign affiliates. Over time, and through exports and foreign direct investments, products and technologies diffuse into developing countries and throughout world markets.¹⁵

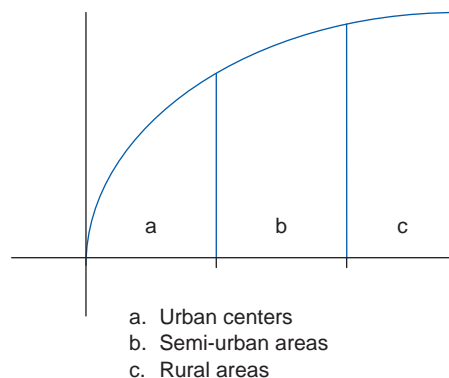
The diffusion process in national markets. Within individual countries, the diffusion process usually begins in urban centers (see Figure 1.5). In industrializing countries in particular, major metropolitan areas are the seats of government, have developed infrastructures (power grids, telecommunications, road, rail systems, airports), and contain concentrations of economically significant customers. This has made cities ideal springboards for the diffusion of new products and technologies in emerging markets. Over time, and just as they did in medieval Europe, infrastructures develop, general levels of education and affluence rise, and innovations spread outside of towns into semi-urban areas (where rural migrants settle) and eventually into rural markets. As successive waves of technologies and products diffuse, modernization and industrialization begin to take hold. In developed markets, this process has already occurred. Urban-rural differences in affluence and education levels are minimal, and established infrastructures facilitate speedy diffusions of new ideas, products, and services.

FIGURE 1.4 Diffusion Across International Markets



1. Advanced countries: USA, Western Europe, Japan
2. Industrializing countries: Asia, Latin America, Eastern Europe
3. Less advanced countries: Parts of Asia, Africa, Middle East

FIGURE 1.5 Diffusion Within National Markets



Many factors affect the rates at which new ideas and technologies diffuse through world markets, including the following:

Country openness to external influences: The diffusion of technologies and new ideas into country markets is affected by national interactions with the outside world. In some cases, a country's geographic position can effectively isolate it from outside influences (for example, China and Japan up to the late 19th century). In other cases, countries take steps to protect national industries and cultures from international influences (for example, through trade and investment restrictions), essentially limiting their abilities to benefit from other countries' innovations. Middle Eastern and some Asian economies have been apprehensive about the importation of Western lifestyles that they perceive as disruptive to their national cultures.

The importance of education and literacy: Use and adoption of technologies requires educated personnel. Ineffective national education systems are problematic for three reasons. First, they hinder national abilities to invent and be at the cutting edge of industry innovations. Second, the number and caliber of technical and educated personnel affects countries' abilities to adopt and use technologies for national development. Third, poorly educated consumers are less able to appreciate and adopt new ideas and technologies.

Literary rates: These also affect diffusion rates for new ideas, as consumer education is limited to personal experiences and local interactions. While the growth of broadcast media such as radio and television can offset literacy problems, the combination of low literacy rates and poverty, particularly in developing countries, limits educational opportunities and exposures to new ideas and technologies.

The Importance of national infrastructures: How quickly new ideas and innovations spread within countries depends on the degree of national infrastructure development (roads, energy grids, transportation systems, water facilities). The ease with which nations can develop infrastructures to link communities and populations in turn is influenced by country size, national resources, topographies, and climates.

Effects of national ethnic and linguistic compositions: Cultural and linguistic differences between countries affect the ease with which nations can communicate and do business with each other. Similarly, within nations, cultural heterogeneity (i.e., many different ethnic and language groups) slows the diffusion of new ideas, products, and technologies. Conversely, single-language and culturally homogeneous nations have fewer obstacles in diffusing new technologies and ideas.

*How disruptive of national lifestyles the innovations are:*¹⁶ The rate of innovation diffusion depends on how different products and services are, and how customers perceive the costs and benefits of the innovation. Innovations must get around two

The crossroads of trade are the meeting place of ideas, the attrition ground of rival custom and beliefs; diversities beget conflict, comparison, thought; superstitions cancel each other, and reason begins.

Will Durant, 20th-century U.S. historian

sets of obstacles to diffuse effectively throughout world markets. First, when they cross country borders they must overcome national differences in culture and development. Second, when they are rolled out into rural areas, particularly in developing markets, differences in urban–rural cultures must be negotiated. For example, introducing a new brand of toothpaste into developing country towns and cities is a minor innovation. Rolling out toothpaste into rural markets is a different matter, and may involve disrupting traditional dental hygiene patterns (for example, in India where charcoal is commonly used in rural areas to clean teeth).

Cumulatively, the introduction of new products, technologies, and business methods continues to have major impacts on national cultures and mind-sets. While many are welcomed, some are not. When introducing new products and technologies into foreign markets, international corporations must take account of diffusion processes in their choice of strategies.

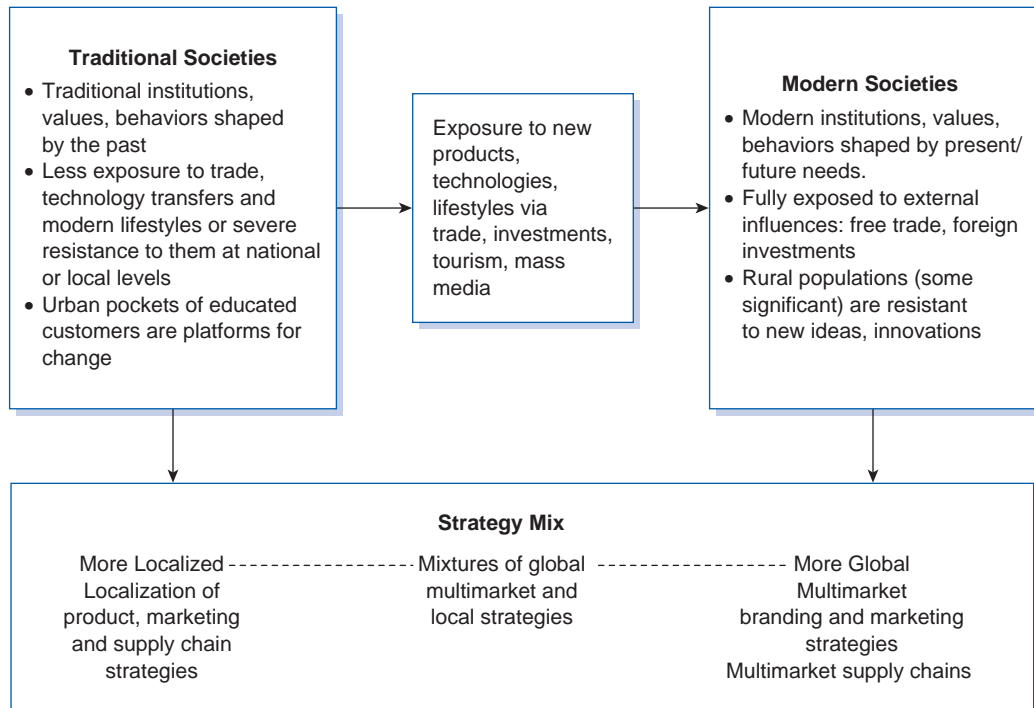
Diffusion Effects on Strategy Formulation and Implementation

Historically, countries have developed at varying rates and in different ways. They have different resource bases, climates, topographies, languages, values, attitudes, and behaviors. In the competitive world marketplace, the challenge for international business executives is to recognize what aspects of business strategy can be transferred to other markets with few or no adaptations (a standardized or global strategy to take advantage of customer similarities), and what aspects need to be adapted to facilitate customer acceptance and use (an adaptive or multi-domestic strategy). The links between traditional or modern societies and strategy formulation and implementation are shown in Figure 1.6.

The arguments for standardized strategies. The temptation to standardize products has never been stronger. Global customer awareness and appreciation of new products and technologies has never been higher. International media, trade, the Internet, and the increasing presence of international corporations in world markets have homogenized tastes to the point that customer similarities across markets have outstripped national differences. The constant sharing of technologies, goods, and services among developed markets in particular has reduced (but not eliminated) national differences in customer preferences. This globalization trend has encouraged firms to standardize products and services across markets.¹⁷

International companies have taken advantage of the globalization trend by transferring products, services, and technologies abroad. Initial product rollouts usually occur first in developed countries with similar demand patterns (e.g., North America and Western Europe). While companies make some adaptations (voltage changes for electronic goods, right-/lefthand drives and minor stylistic changes for autos, labeling changes for consumer products), essentially products and services are similar from market to market. This is a *global or multimarket standardization strategy*. Also, in urban parts of developing markets, outside of translations and language differences, customer tastes are similar to those in developed markets as modernization trends have taken hold. Global and multimarket strategies have a number of advantages, including

FIGURE 1.6 Traditional–Modern Societies and Effects on Strategy Formulation and Implementation



- Global, regional, or multimarket rollouts of new products maximize their competitive impact. Opportunities exist to transfer products and brand images across markets; and policies regarding distribution and pricing can be standardized to varying degrees. Carlsberg beer is brewed and marketed identically in over 30 countries; and Hollywood movies go into world markets with minimal changes (except dubbing and subtitles).
- Supply chain activities and management philosophies can be integrated across nations. This includes global sourcing of products, raw materials, and components. Manufacturing methods can be transferred abroad to capitalize on home-market efficiencies and expertise. Toyota routinely transfers Japanese production methods and standards to its overseas plants. Where foreign-market infrastructures and conditions are favorable, management processes such as total quality management, just-in-time supply chains, and reengineering can be assessed for use. Worldwide R&D efforts and globally orchestrated new product-development processes can be coordinated, and common corporate cultures can be developed to bond together managements from different countries and cultures.

The arguments for localized strategies. Foreign markets and customers have not been equally receptive to cross-border influences and trends. Hundreds or sometimes thousands of years

God grant me the serenity to accept the things
I cannot change, courage to change the things
I can, and the wisdom to know the difference.

*Reinhold Niebuhr,
20th-century U.S. theologian*

of national-culture continuity breed habits and behaviors that are not easily set aside. Where local markets retain their traditional national cultures, modern products and technologies are slow to be assimilated (for example, in the Middle East and Asia where national cultures are deeply rooted). This occurs where protectionist tendencies are present, where local traditions are strong enough to resist the diffusion of modern technologies, and where

business acumen dictates that localization strategies are optimal. In such markets, national tastes are less influenced by global trends, and international firms must cater to local needs to be successful. This involves taking full account of national cultures, values, and behaviors. Localization strategies become key competitive tools as international firms compete not only against other worldwide companies but also against national competitors with superior knowledge of local customs and behaviors. But while completely localized strategies are tempting options, they are not the answer for most international companies for three reasons. First, localized approaches are expensive and time-consuming, as top-to-bottom assessments of customer needs are necessary for each new market. Second, localized strategies often do not differentiate corporate output from that of local rivals. Third, they do not take advantage of the international company's worldwide experience and economies of scale—often key reasons why firms have been successful in world markets in the first place. In many situations, though, business strategies must be adapted and localized to optimize their appeals. Localization strategies include

- Adapting imported product ideas and custom-building goods and services so they can maximize their appeal to national tastes. Television networks such as MTV in the United States and Star TV in Asia have recognized that customizing programming to national tastes is a major key to marketplace success.
- Use of country-oriented manufacturing techniques (for example, more labor-intensive production processes), local sources of supply, and adherence to local management styles and supply chain relations. Hankook Tire, a global top-5 tire manufacturer, deliberately gives its foreign subsidiaries decision-making autonomy to respond quickly to local market needs.¹⁸
- Adoption of localized marketing strategies, with advertising and promotional strategies oriented toward national and local values and major adaptations to local distribution and pricing habits. In China, McDonald's and Kentucky Fried Chicken both adorned their restaurants with Spring Festival decorations to maximize local appeal, while Coca Cola printed cartoon snakes on bottles to celebrate the Year of the Snake.¹⁹

Historically, standardization and adaptation have been viewed as opposite strategies. In reality, companies tend to standardize some aspects of their strategies (for example, building global or multimarket brands) and adapt other aspects of their operations (manufacturing methods, promotions, distribution). Also, wherever firms have foreign-market facilities, executives must adapt to local cultures in face-to-face dealings, and comply with local laws

and customs with respect to human resources, manufacturing, and distribution. The globalization–localization mix varies by industry, company, and market. It is management’s task to ensure that foreign operations have the appropriate global–local mixes for their situations.

INTERNATIONAL BUSINESS TOPICS AND THE ORGANIZATION OF THIS TEXT

This text is organized into 13 chapters under three sectional headings. In Part I (the first three chapters), the globalization process, history, and causes and effects are examined to give students background concerning how international business has affected, and continues to affect, global institutions, behaviors, and values through transfers of technologies, products, services, and lifestyles.

In Part II, we evaluate how executives analyze the international marketplace. Chapter 4 looks at regions and their geography, history, and commerce. Chapter 5 reviews how national markets are analyzed, while Chapter 6 looks at how industries and competitors are evaluated.

In Part III, how executives manage globalization is examined. In Chapter 7, corporate international planning processes are assessed. Then the follow-on process, corporate globalization strategies (Chapters 8–9), are reviewed. Finally, we look at global and multimarket strategies (Chapters 10–11) and localization strategies (Chapters 12–13). What follows are details of individual chapters.

Part I: The Globalization Process—Background, Causes, and Effects

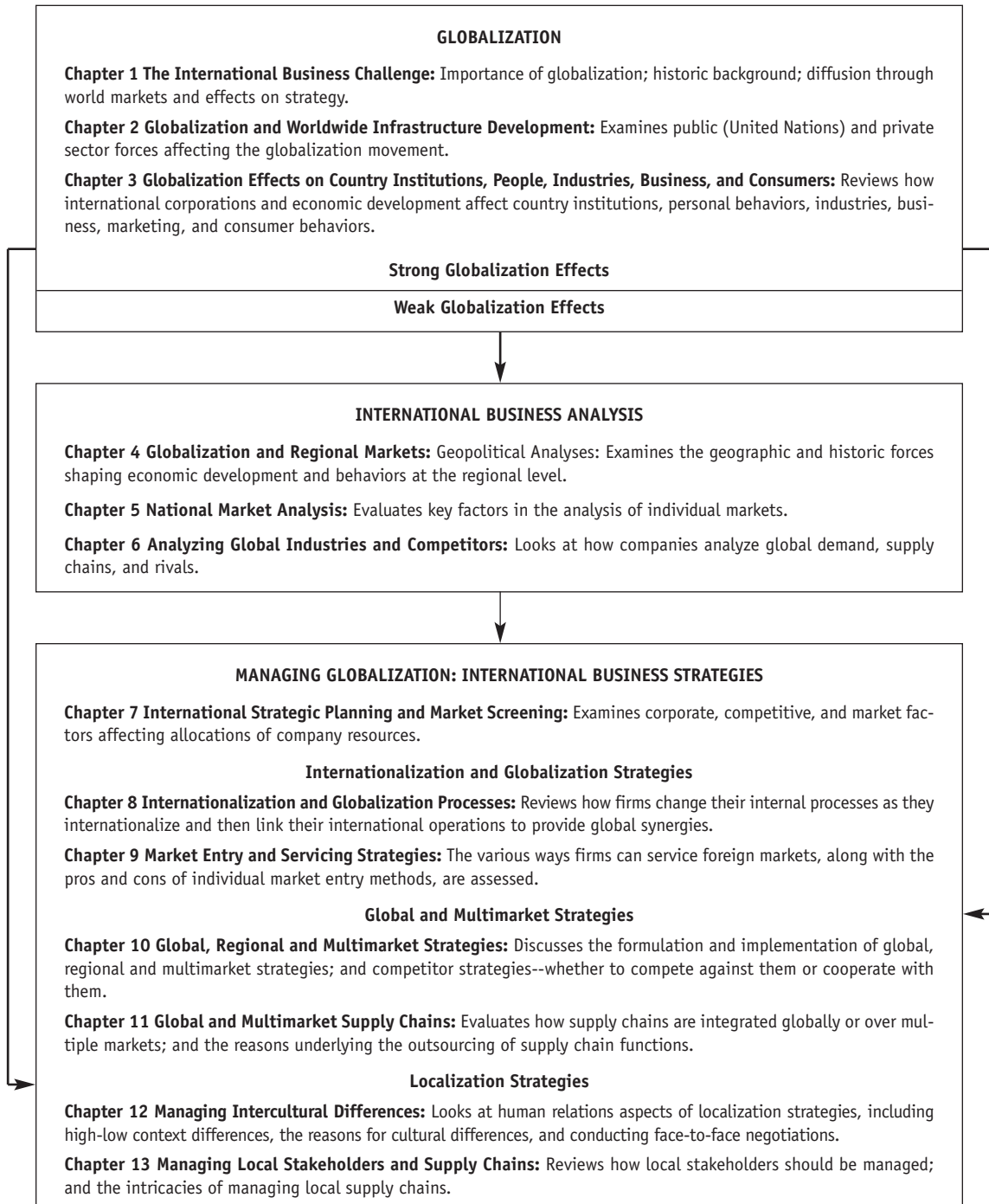
Our international business journey has begun in Chapter 1 with a review of the two major challenges facing global executives: the challenge of diversity as managers appreciate the variability of world markets, and the challenge of implementing strategies in a perpetually changing marketplace.

The process of understanding international markets begins with an appreciation of how the world economy has evolved over time. History shapes nations, their behaviors, values, and attitudes. The globalization process is not new, though the pace of its progress increased significantly toward the end of the 20th century. The effects of this process with the constant diffusion of technologies, processes, and lifestyles through world and national markets are examined, along with the effects on global and local strategy formulation and implementation.

Chapter 2 examines the forces contributing to the globalization movement. The effects of public institutions such as the UN are evaluated from an international business perspective, and the effects of specialized UN agencies are assessed. Private sector contributions are reviewed, including the impacts of global media, international retailers, transportation, and information technology catalysts on globalization. Also discussed are the effects of economic and political integrations (e.g., the European Union and other trade blocs), and the impact of privatization and deregulation trends on industries and nation-states.

Chapter 3 looks at globalization effects, with technology transfers as key inputs to country development and the transitions from traditional to modern societies. Changes in political institutions (e.g., from autocratic to democratic systems) and economic institutions

TABLE 1.3 Text Layout: International Business: Globalization, Analysis, and Strategy



(from centralized production and distribution to capitalist systems) are examined, along with changes in social and cultural institutions (e.g., social class, family units, religiosity) and the reshaping of personal values. Paralleling these societal changes, developmental changes in industry, corporate, management, marketing, and consumer behaviors are documented.

Part II: International Business Analysis

Analyses of international markets in Part II include a look at the development of regional markets, analyses of national markets, and how to evaluate industries and competitors in their global contexts.

Chapter 4 examines regional issues. The effects of geography and history on regional commercial and cultural development are assessed in their North American, Latin American, Western European, Eastern European, Middle Eastern, African, and Asian contexts. These analyses provide insights as to why regions developed at different rates and why differences exist among regional behavior patterns. These insights are building blocks for the analyses of individual markets presented in Chapter 5, and include evaluations of historic, geographic, political, economic, and cultural factors affecting commercial operations within individual countries.

Having completed their environmental analyses, companies turn their attentions to industry activities, competitors, and deciding which markets present the best opportunities for commercial development. Chapter 6 looks at how industries are analyzed on a worldwide scale to determine where to sell and produce their products and services. Included are analyses of competitor actions, and key factors in corporate situation, strategy, and resource deployment analyses.

Part III: Managing Globalization—International Business Strategies

Firms use a variety of strategies to enter and penetrate international markets. The strategy-making process begins as industry and company analyses are brought into the corporate planning process. This is described in Chapter 7. In this most important part of the management processes, corporate missions, assets, and competencies are reviewed, and businesses and market strengths and weaknesses are assessed.

From these evaluations, companies prepare to internationalize their operations or, if they are seasoned campaigners, to integrate their activities globally. These processes, described in Chapter 8, ensure that firms have the appropriate organizations and managerial talent to cope with the rigors of extending businesses over increasing numbers of markets, and to ensure that personnel, corporate processes, and organizational structures are matched to industry, business, and market needs.

Once internal analyses are complete, firms review and evaluate their choices of market entry and servicing strategies. These options are presented in Chapter 9, along with the factors determining the use of specific strategies.

Firms compete in world markets with two basic strategies. In countries where the globalization process has taken root, markets and customers tend to be similar and countries have few restrictions to trade and commerce. In these cases, companies can extend products and services (with often minor changes) either worldwide or into multiple markets. These strategies are described in Chapter 10, as are competitor strategies: whether firms should compete against or form alliances with regional and national rivals in world markets.

Similarly, where markets are open, firms can link supply chain operations and take advantage of individual countries' resources and expertise. This process, detailed in Chapter 11, sets out the principles involved in operating global and multimarket supply chains. Supplier–manufacturer linkages, international manufacturing systems, and distribution strategies are set out, and market linkage mechanisms are reviewed. At this stage, the outsourcing option is discussed, including the pros and cons of allowing third parties to handle supply chain functions.

Finally, because all firms must ultimately manage their markets at the grassroots level, localization strategies are set out in Chapters 12 and 13. In Chapter 12, the managing of intercultural differences is examined first from a conceptual perspective, then from a face-to-face vantage point as intercultural negotiating strategies are discussed. In Chapter 13, the management of local supply chains is discussed: what managers must do to build insider relations, manage suppliers and local manufacturing operations, and recalibrate their marketing strategies to suit local needs. Lastly, because management styles usually need to be adapted to ensure the smooth running of internal operations, the characteristics of North American, Latin American, Western European, Eastern European, Asian, and African styles of management are set out and insights presented as to their historic and cultural underpinnings.

Key Points

- International business is the performing of commercial activities to promote the transfer of technologies, goods, services, resources, people, and ideas across national boundaries. Major beneficiaries of these activities include countries, companies, and consumers.
- The international business challenge is to use tools from political science, anthropology, economic development, sociology, religious studies, geography, and history to understand the diversity and change inherent in world markets.
- The globalization movement is the trend toward increasing interdependencies among world markets and the diffusion of new ideas, technologies, products, services, and lifestyles through international markets. It comprises modernization and Westernization processes. Historically, globalization has evolved over three eras: the Exploration Era to 1500, the Colonial Era from 1500–1900, and the Era of the International Corporation from 1900 onward.
- Modern corporations date from the 19th century, but their major growth period was in the post-1945 era, with U.S., European, and Japanese companies taking the lead. From about 1980, international trade, trade blocs, foreign direct investment, trends toward global capitalism, and global media accelerated the globalization movement.
- The globalization movement involves the diffusion process of new technologies and products across markets. It starts with developed countries and moves over

time into developing markets. The rural parts of developing countries are the last to benefit from modernization processes, and populations in these areas lag behind those in urban and semi-urban areas. Education, literacy rates, country openness to external influences, national infrastructures, and ethnic and linguistic compositions all affect diffusion rates in developing markets, as does the type of product innovation.

- The diffusion process affects strategy formulation and implementation, with standardized strategies more likely in developed markets. Greater degrees of adaptation are likely in developing markets that are less exposed to modernization processes.

NOTES

1. This equates linguistic groups with cultural groups, as each language propagates a distinct cultural perspective of the world.
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SHORT CASE 1.1 The September 11 Tragedy: An International Business Perspective

The events of September 11, 2001, when Muslim fundamentalists hijacked four U.S. civil aircraft, flew three into the twin World Trade Towers in New York and the Pentagon in Washington, D.C., and the fourth crash landed in Pennsylvania, were tragic. Overall, about 3,000 people lost their lives in the worst act of terrorism in modern history. Instantaneously, much of the world united behind the United States, condemned the act, and set about identifying the perpetrators. Very quickly, the United States and its allies identified Osama bin Laden and the al Qaeda organization as the responsible party, and took steps to isolate the group. Bin Laden himself, the estranged son of a powerful Saudi Arabian family, was already known as the prime suspect behind the bombing of the *USS Cole* in the port city of Aden, Yemen, and the two U.S. embassies in Kenya and Tanzania. Soon, U.S. citizens were finding out what the Europeans had known for decades: that it was almost impossible to defend against terrorism without massive curtailing of individual rights that countries like the United States had spent generations building up.

Yet throughout the worldwide media coverage, little was said about one key question: Why did it happen? Most of the press reports and analyses of that time focused on national prevention issues such as lax or ineffectual safety procedures at airports and on airplanes. Little was said about the global context that surrounded 9/11. Who, for example, could hate the United States so much to make such acts of terrorism feasible? What U.S. behaviors or policies had so angered Islamic fundamentalists that the September 11 atrocities became an outlet for their frustrations? To understand the motives for such acts is not to condone them, but rather to avoid future escalations from other like-minded groups. Two global explanations garnered some attention in U.S. global publications and in the world media generally. One concerns U.S. policies in the Middle East, most notably, U.S. involvement in the Israel–Palestine problem. The other is more wide-ranging and looks at the globalization/Westernization process and its effect on world cultures.

The Palestinian Question

The problems of the Middle East date back thousands of years, but we begin our discussion in the early 20th century when the Arabian Peninsula was, with some exceptions, mainly inhabited by wandering Bedouin tribesmen and caravans. The Turkish Ottoman Empire had dominated the region for centuries, but was finally overturned during World War I, and the Balfour Declaration in 1917 established the principle of independent states for Israel and the Palestinians. However, it was not until the 1930s and 1940s that a formalized system of independent nation-states was established. Saudi Arabia became a country in 1932, Jordan in 1946, Syria in 1945, Lebanon in 1946, Israel in 1948, and Yemen in 1967. Prior to that time, the cultural bonds of language (Arabic) and religion (Islam) linked the Arabian Peninsula peoples. Today, those bonds are still apparent and are epitomized by the old Arab proverb, “I against my brothers; I and my brothers against my cousins; I, my brothers, and cousins against the world.” When one Arab Muslim was harmed, other Arabs and Muslims felt the pain.

The current Israel–Palestine problem had its origins in 1948, when the division of Palestine into Israeli and Palestinian states produced immediate tensions that escalated into regional conflicts in 1967, 1973, and 1982. The problems centered around the U.S.-backed Israeli occupation from 1967 of the Palestinian-dominated areas of the Golan Heights (on Israel’s northeastern border), the West Bank (to the East), and Gaza in the southwestern portion of the Palestine. While Gaza established some autonomy in the late 1990s and became independent in 2004, conflicts between Israel and the Palestinians continued into the new millennium. In 2001, frequent Israeli incursions into the West Bank had

produced continued conflicts, despite U.S. and other Western efforts to broker peaceful solutions through negotiations. U.S.-supplied Israeli forces were proving superior, with Palestinian fatalities outstripping Israeli deaths by a 3-to-1 margin. The Arab and Islamic peoples around the world rallied around the Palestinian cause. The historic bonds of language, culture, and religion are not easy to erase, and the United States' backing of Israel was perceived, rightly or wrongly, as anti-Arab and anti-Islam. Yasser Arafat's death in 2004 sparked a reorganization of the Palestinian Authority's political structure. The Authority's 2006 election of Hamas brought adverse reactions from the West due to the party's non-recognition of the state of Israel. More recently, the 2006 kidnappings of Israelis by Palestinian and Lebanese militants prompted significant military reprisals from Israel.

The Globalization Era

The era of globalization has its roots in the 1980s and 1990s, decades of tumultuous change in the world economy. The fall of communism over this period gave capitalism a virtual monopoly of world economic philosophies. The economic liberalizations occurring in Latin America, Eastern Europe, and Asia were testament to the new era of global capitalism. The parallel spread of democracies brought new economic and political empowerment to increasing numbers of nations. International commerce was extending its influence across the world. The forces of globalization, aided by the World Trade Organization, had expanded international trade from \$2 trillion in 1980 to \$4 trillion in 1994, and to over \$10 trillion in 2005. Foreign direct investments in factories, plants, and machinery, barely half a trillion dollars in 1980, had risen to over \$2.5 trillion in 1995 and to \$12 trillion in 2006, as international corporations spread their commercial tentacles into all corners of the globe. This had been foreseen in 1983, when Harvard Business Professor Theodore Levitt had noted, "A powerful force drives the world towards a converging commonality, and that force is technology. It has proletarianized communication, transport, and travel. It has made isolated places and impoverished peoples eager for modernity's allurements" (p. 92).

But not everyone has been eager to sample "modernity's allurements." Indeed, many societies shied away from the conveniences and comforts of modernization. They viewed new products, technologies and lifestyles as form of cultural imperialism. Westernization, with its emphasis on the accumulation of material possessions and competitive lifestyles, became anathema to peoples steeped in religious philosophies and traditional lifestyles. Preserving national cultures became difficult in the face of competitive political democracies and market forces of capitalism. Institutions such as the extended family and traditional social class systems came under pressure as countries industrialized. Most important for religion-based societies (such as the Islamic nations), industrialization and modernization were perceived as distracting individuals away from spiritual ideals and toward commercial pursuits. Historically, the Christian religions had been able to reconcile religious and commercial goals with, for example, the Protestant work ethic. However, for many religions and peoples of the world, the spiritual and commercial paths were irreconcilable. For one to gain, the other must lose. Movements against modernization and Westernization, featuring groups such as the al Qaeda movement, became prominent as opposition mounted to the globalization movement.

The importance of religion in the world is undeniable. Islam has over 1 billion followers, as does Hinduism. A further 1 billion people (mainly in Asia and Mainland China), have had their lives shaped by Buddhism and Confucianism. The West's understanding of these religions and philosophies tends to be minimal, yet they are pervasive influences on their followers' lives. The influence of Protestantism and Catholicism on daily lives in the West is not extensive, and this has caused many to underestimate religious influences in other societies. For example, in agricultural societies, religion and benevolent deities are key factors where crops and climates are crucial in communities' fights for survival.

Then there are the modernization and Westernization forces that increasingly intrude into traditional societies. Leading the cultural intrusions into foreign lifestyles have been two major forces: international corporations and global media. U.S. companies occupy 5 of the top 10 positions in corporate rankings by assets worldwide, and 12 of the top 50. They are often the most visible of the world's leading corporations, accounting for about two-thirds of global brands. The top 100 control over \$2 trillion in assets globally. Yet this only represents one-eighth of all foreign-based assets worldwide. The influence of these companies on the global cultural landscape has been enormous, as have the effects of capitalist-inspired profit motives, efficiency orientations, and management and marketing methods that affect national lifestyles, especially in developing countries.

Global media have revolutionized the transfers of cultural images between countries through television, radio, and the Internet. The BBC, Vivendi, and Bertelsmann media corporations have carried European values and lifestyles into foreign markets. U.S. media influences include Disney, MTV, CNN, Cartoon networks and, of course, Hollywood. Many of these target and influence youth audiences worldwide, pulling them away from national cultures and toward Western lifestyles. As they do, they leave lasting impressions of the United States and North America.

The impacts of modern products, media, and technologies have not been positive for many peoples, with the result that many groups have coalesced under the anti-global banner. The religious right in the United States actively campaigns against mass media focuses on violence, crime, and sex. Attacks against McDonald's in France, India, and other parts of the world are signals of an underlying resistance to Western and, in particular, U.S. intrusions into national cultures. Canadian restrictions on U.S. media activities within their national borders have occurred because of fears of cultural imperialism. The 1999 protest against the WTO, known as the "Battle in Seattle," and other protest movements against the World Bank and the IMF demonstrate that not everyone in the developed world is enamored with global capitalism. Finally, there are many peoples in the developing world, and in Islamic countries in particular, that link Western influences with crime, immorality, and sex, and are anxious to keep such influences out of their lives. The United States, as the world leader of capitalism and Westernization, has become the lightning rod for the evils of the world, and is known in some strict Islamic societies as "the Great Satan."

Modernization through globalization may be inevitable, but how countries and companies use their influence in the world is controllable. The forces of modernization must be tempered by sensitivities to national cultures that have been built up over hundreds or thousands of years. This requires knowledge and understanding of world cultures, especially in the front lines of international business practice. Businesspeople ignorant of world cultures and business practices risk not only losing contracts and sales, but also compromising the integrity of the country they represent.

Questions for Discussion

1. How do other countries view the USA (positives and negatives)? How do you think those views were formed?
 2. What do you think are the differences between modernization and Westernization?
 3. What do you think caused the September 11, 2001, bombings? Why?
 4. How much international business should students have as part of their business education? Put a percentage on the extent of international business content and justify it.
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SHORT CASE 1.2 The Internet: Revolutionizing International Business? Or Not?

The Internet, since its 1990s commercial introduction, has had major impacts on business. It has lubricated communication within and between companies, and built bridges via company websites to anyone with a computer with Internet capabilities. E-commerce has improved corporate supply chains by allowing suppliers, distributors, and customers to coordinate with manufacturers to produce appropriate goods and get them to where they are needed. The Internet's 24-hour capability allows businesspeople to communicate easily across vast geographic distances and time zones to enhance business efficiencies. Just as important, the Internet allows global access to worldwide news and events, and gives isolated groups forums for their ideas. This democratization of world communications, without the selectivity and censoring effects associated with international broadcast and print media, has become a potent influence on world cultures.

But the world is still composed of nations with their own languages and cultural idiosyncrasies. As such, there are still a multitude of national differences to be overcome before the Internet and e-commerce can reach its full potential. First, the Internet relies on computer ownership or access. This limits its effects to countries and individuals affluent enough to afford computers. Second, the Internet's reliance on national telecommunication and energy infrastructures limits its reach, particularly in developing countries. Third, there are educational deficiencies to be overcome as developing nation educational levels are brought up to Western technical levels. Fourth, to effect sales over the Internet, often credit or debit cards are necessary. It takes time for country affluence levels and banking facilities to reach this level of payment sophistication.

On the plus side, the Internet currently reaches many English-speaking populations in North America, Western Europe, and in former British colonies around the world. This is important given that North America and the UK account for over \$3.9 trillion of the world's \$12 trillion in foreign direct investments. Also, as language website capabilities are expanded to include the major European languages, so worldwide coverage continues to increase.

But while the Internet facilitates communications among managers and companies, its use in propagating commerce worldwide still faces many of the traditional obstacles to commerce. Export-import regulations, customs, tariffs, currencies, transportation, and taxes must all be negotiated before Internet transactions can be consummated. Slowly, the services to complement online transactions are being made available. Financial institutions are starting to offer currency translation and conversion services (e.g., CDNow, VeriSign, SurePay), and companies are starting to offer services such as myCustoms to facilitate trade documentation, customs, and taxation functions.

Challenges to transactions among international corporations and their subsidiaries have mainly been overcome, with worldwide business-to-business e-commerce at about \$2.5 trillion in 2004. Global chemicals industry firms, for example, have all set up websites and extranets to link key customers worldwide, and already generate over 25 percent of world sales via e-commerce.

Penetrating consumer markets presents some of the greatest challenges to companies seeking to gain advantages from the e-commerce trend. In 2004, U.S. consumers accounted for over \$150 billion in online sales, or about 5 percent of domestic retail sales. This is about half the global consumer e-commerce total for about 45 percent of online users. Global e-commerce market forecasts vary considerably, with projections to 2012 varying from \$6 trillion to \$12 trillion. Much of this will be business-to-business as international corporations conduct their global sourcing of materials and components increasingly over the Internet. At the consumer level, growth will be slower as developing nations gradually come on stream,

overcoming infrastructure deficiencies (energy grids, for example), educational obstacles, and shortfalls in consumer purchasing power.

How firms react to the new Internet world will undoubtedly affect their competitive standing over the next decade. Initial surveys suggest that two-thirds of U.S. companies are not well prepared for the global online marketplace. Some are developing multilingual websites, especially in Western Europe. A major challenge for all firms is to incorporate languages with non-Roman alphabets such as Russian, Arabic, Chinese, Japanese, and Korean into their corporate websites, and this is already underway. However, even when ready, these websites must be maintained and requisite support services provided, including financing and website maintenance expertise. For consumer-based e-commerce, payment methods rely heavily on credit cards, and these entail credit checks and other fraud-preventing measures, many of which are not universally available. As markets become more competitive, locally appealing websites become key issues, and while English language websites are adequate for major developed markets, their appeal rapidly subsides as market penetration levels reach less-educated consumers in non-English-speaking countries. Then, too, the appeal of products and services marketed from a central home market location diminishes as competition increases and customers start to prefer offerings oriented to their national cultures. Firms with in-market presences will have advantages in local appeal, rapid service, and consumer confidence.

Questions for Discussion

1. Discuss the diffusion process as it is likely to affect e-commerce. How will the diffusion rates for business-to-business differ from that of business-to-consumer? Why?
2. What are the key success factors affecting the spread of e-commerce worldwide? Which do you think is the most important and why?
3. What sort of innovation is the Internet (a congruent, continuous, dynamically continuous, or discontinuous innovation)?

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